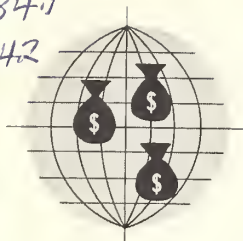


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FOREIGN GOLD & EXCHANGE RESERVES

Current Trends in International Liquidity

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International Monetary Branch • Foreign Development and Trade Division

GLOBAL SURVEY

World trade continued to expand in 1964 and 1965. Its value, excluding the trade of the Sino-Soviet countries, was \$150.4 billion in 1964; 12.2 percent above 1963. By comparison the value of world trade rose 8.5 percent in 1963; 5.4 percent in 1962; and 4.7 percent in 1961.

Agricultural trade accounted for \$30.9 billion of the total in 1964; \$30.3 billion in 1963; and \$29.9 billion in 1962.

The volume of world agricultural trade in 1964 improved by 6 to 6½ percent over 1963 helping push the volume of total world trade up about 10 percent. Much of the increase in the volume of world agricultural trade was accounted for by expanded U.S. commercial exports of agricultural commodities.

World exports of most major agricultural commodities were at or above the 1963 level, including feed grains, oilseeds, oils, and fats, fruit, meat, whole milk products, coffee and tobacco. Exports of sugar and rice declined, while wheat trade tapered off during 1964 as a result of improved crop conditions.

As the volume of world trade has grown so has the volume of questions about the adequacy of international reserves in meeting the world economy's needs. Traditionally, international reserves of a nation have been measured by monetary holdings--gold and foreign exchange reserves. However, discussion of problems of international liquidity has broadened the meaning of international reserves to include the credit available to countries with balance of payments problems. One important source of credit is the International Monetary Fund. A country's position in the Fund is included as part of a country's total liquidity (table 1).

Table 1.--International gold and foreign exchange reserves of the free world ^{1/}

Country and area	Dec. 31 1963	Dec. 31 1964	June 30 1965	Change Dec. 1964- June 1965	Gold component June 30 1965 2/	Ratio of reserves to imports June 30, 1965
	Million U.S. dollars				Percent	
I. INDUSTRIAL AND OTHER HIGH INCOME COUNTRIES						
Belgium-Luxembourg.....	1,940	2,192	2,264	72	77.7	37.1
France.....	4,908	5,724	6,153	429	81.2	56.8
Germany, Federal Republic of	7,650	7,882	7,452	-430	68.3	53.9
Italy.....	3,406	3,823	3,952	129	67.2	52.9
Netherlands.....	<u>2,102</u>	<u>2,349</u>	<u>2,339</u>	<u>-10</u>	85.8	33.3
European Economic Community.....	20,006	21,970	22,160	190		
Austria.....	1,229	1,317	1,284	-33	57.2	70.7
Denmark.....	470	645	510	-135	30.5	24.7
Norway.....	354	387	422	35	13.2	19.5
Portugal.....	842	954	933	-21	60.2	125.4
Sweden.....	758	964	1,041	77	27.6	25.0
Switzerland.....	3,078	3,123	3,010	-113	92.7	86.5
United Kingdom.....	<u>3,147</u>	<u>2,316</u>	<u>2,792</u>	<u>476</u>	79.7	15.0
European Free Trade Association.....	9,878	9,706	9,992	286		
Australia.....	1,880	1,947	1,685	-262	21.1	58.8
Canada.....	2,603	2,881	2,815	-66	48.5	38.1
Finland.....	293	384	300	-84	33.0	25.5
Greece.....	293	281	264	-17	37.5	31.8
Iceland.....	34	44	47	3	8.1	33.6
Ireland.....	406	446	400	-46	7.8	45.8
Israel.....	515	545	636	91	10.7	66.0
Japan.....	2,058	2,019	2,025	6	28.0	25.4
New Zealand.....	143	166	212	46	15.1	17.3
South Africa.....	763	701	499	-202	82.8	29.8
Spain.....	1,152	1,518	1,455	-63	63.3	67.2
Yugoslavia.....	98	74	65	-9	29.2	5.6
II. LESS DEVELOPED COUNTRIES						
Latin America						
Costa Rica.....	16	19	16	-3	13.2	13.7
El Salvador.....	44	53	68	15	35.7	27.7
Guatemala.....	57	60	69	9	40.4	29.7
Honduras.....	12	20	31	11	.4	19.6
Nicaragua.....	<u>32</u>	<u>39</u>	<u>57</u>	<u>18</u>	.3	28.5
Central American Common Market.....	161	191	241	50		
Argentina.....	270	153	117	-36	58.1	14.2
Bolivia.....	10	22	26	4	22.7	22.7
Brazil.....	318	368	520	152	11.9	29.1
Chile.....	77	89	120	31	35.2	14.6
Colombia.....	106	124	84	-40	36.9	21.2
Dominican Republic.....	42	41	42	1	7.1	18.6
Ecuador.....	52	52	38	-14	29.5	30.8
Jamaica.....	91	97	103	6	4.7	34.4
Mexico.....	543	583	3/518	-65	10.4	39.0

Table 1.--International gold and foreign exchange reserves of the free world 1/--cont.

Country and area	Dec. 31:	Dec. 31:	June 30:	Change	Gold	Ratio of
	1963	1964	1965	Dec. 1964- June 1965	component June 30 1965 2/	reserves to imports June 30, 65
	Million U.S. dollars				Percent	
Panama.....	35	15	28	13	.4	7.6
Peru.....	135	160	207	47	37.1	28.0
Uruguay.....	197	190	204	14	83.8	96.0
Venezuela.....	745	831	822	-9	53.4	65.3
<u>Middle East</u>						
Iran.....	246	199	301	102	46.8	29.6
Iraq.....	294	249	285	36	47.6	60.3
Jordan.....	63	77	127	50	4.2	54.6
Lebanon.....	206	235	236	1	61.4	n.a.
Saudi Arabia.....	514	585	693	108	13.3	n.a.
Syrian Arab Republic.....	38	40	42	2	45.2	17.0
Turkey.....	178	144	146	2	86.3	26.6
United Arab Republic.....	216	223	3/197	-26	70.6	23.4
<u>Asia</u>						
Burma.....	187	203	143	-60	63.7	74.6
Ceylon.....	75	51	50	-1	n.a.	12.3
China, Republic of.....	227	297	319	22	17.2	69.4
India.....	607	498	519	21	54.1	19.1
Indonesia.....	51	n.a.	n.a.	n.a.	n.a.	n.a.
Korea.....	132	136	118	-18	6.7	33.7
Malaysia.....	920	894	4/878	-16	1.6	108.5
Pakistan.....	307	244	223	-21	23.8	24.4
Philippines.....	110	123	141	18	22.0	14.2
Thailand.....	576	660	n.a.	n.a.	n.a.	99.0
Vietnam.....	175	141	126	-15	4.8	47.3
<u>Africa</u>						
Ethiopia.....	50	61	83	22	80.7	49.6
Ghana.....	128	128	157	29	n.a.	37.6
Libya.....	122	172	271	99	26.4	58.9
Morocco.....	110	53	66	13	51.5	11.5
Nigeria.....	248	256	206	-50	12.1	36.0
Somalia.....	19	17	16	-1	n.a.	n.a.
Sudan.....	101	71	74	3	n.a.	26.5
Tunisia.....	63	33	30	-3	12.7	13.3

1/ Includes gold tranche position with the International Monetary Fund and some non-convertible currencies for some countries.

2/ Gold tranche position included with gold.

3/ Preliminary.

4/ As of March 31, 1965. The reserve figure for June 30, 1965, is not yet available.

Source: International Financial Statistics, International Monetary Fund, October 1965.

Foreign countries (excluding the Soviet bloc) expanded total gold and foreign exchange holdings by \$1.6 billion in 1964, compared to increases of \$3.8 billion in 1963 and \$1.9 billion in 1962 (table 2).

Table 2.--Foreign holdings of gold and foreign exchange assets 1/

Country designation	As of December 31 --					1st half 1965
	1960	1961	1962	1963	1964	
	<u>Million U.S. dollars</u>					
Industrial or developed <u>2/</u>	31,581	34,952	37,055	39,872	42,343	42,123
Less developed <u>3/</u>	9,725	8,990	8,810	9,800	9,890	<u>4/</u> 10,475
Total	41,306	43,942	45,865	49,672	52,233	<u>4/</u> 52,598

1/ Excludes Soviet bloc holdings.

2/ Group I of table 1.

3/ Group II of table 1 plus some sterling and franc area countries not included in table 1.

4/ Estimated.

In 1964, the world payments imbalance widened substantially so that virtually all the rise in reserves came in developed industrial nations, although the acceleration in economic activity was not uniform. In general some slowdown in the rate of growth occurred in late 1964 and early 1965 after the rapid expansion in production in industrial countries during 1963.

In continental Europe, balance of payments developments were marked by rising demand pressures on available resources, aggravated by wage increases, especially in the Common Market countries. These pressures further aggravated the already inflationary situation. An acute labor shortage in some countries developed. In countries outside the Common Market, notably Canada and Japan, a considerable expansion occurred in economic activity. In the United Kingdom, however, a sharp deterioration in the balance of payments led to the imposition of temporary corrective measures in the form of import restrictions and monetary restraints.

The general rise in prices of primary commodities in 1963 contributed to a major increase in official international reserves of less developed countries. In 1964 the demand for primary products continued strong and prices averaged 6 percent higher than in the previous year. However, sugar prices continued to fall, wool prices weakened and coffee prices leveled off after the first quarter. Thus, reserves of developing countries in 1964 did not uniformly increase. Collectively, exports of the developing nations expanded at a satisfactory rate, but imports also rose. Further, the burden of adding to already high levels of international indebtedness in relation to export earnings placed an additional strain on the external payments position of the developing countries.

In mid-1965, foreign holdings of gold and exchange reached a record \$52.6 billion, up \$0.4 billion over the 1964 level. While reserves of developed countries declined by one-half percent, reserves of less developed countries as a whole increased 6 percent to a total of \$10.5 billion. For the most part this increase reflects a more favorable trade position for the developing nations than in earlier periods, accompanied by higher prices for many of the basic products such countries sell in international markets. Economic assistance received from the industrial nations continued at a stable rate. However, because of continuation of monetary expansion policies and the need to foster economic development the less developed countries continued to expand imports.

U.S. international reserves, primarily gold, declined by \$910 million in the first half of 1965 to a total of \$15.8 billion, compared to a decline of \$252 million for the same period of the previous year. The U.S. balance of payments, as measured by the balance on regular transactions, was in deficit in 1964 by \$3.1 billion. The payments position has improved sharply in 1965 in response to the President's balance of payments program announced early in the year and the deficit for the first three quarters was \$0.8 billion.

An important development in the U.S. balance of payments in 1964 was the record increase in agricultural exports resulting in an agricultural trade surplus of \$2.3 billion. Commercial agricultural exports exceeded agricultural imports, while government exports of farm commodities remained at about the same level as in 1963. For 1965 as a whole, agricultural exports are expected to remain at about the 1964 level, although a dock strike reduced the net export surplus in the first quarter.

RESERVE MOVEMENTS AND PAYMENTS POSITIONS OF INDUSTRIAL COUNTRIES

European Economic Community.--The EEC as a whole recorded an increase in international reserves of gold and foreign exchange of nearly \$2 billion from 1963 to June 30, 1965. This accounted for more than 75 percent of the reserve gain in all countries and over 95 percent of the gain in high income countries (table 1). The greatest contribution was made by Italy's unexpectedly large balance of payments surplus. Most of the improvement in Italy's payments situation took place in the current account balance, due in large part to good harvests. The Italian authorities maintained strict monetary policies and, this plus restored confidence in the lira and inflows of capital, much improved the payments position. Official international reserves of Italy totaled almost \$4 billion by the end of June 1965.

In the first 8 months of 1965, Italy's balance of payments showed a surplus of \$1.1 billion, due almost entirely to the surplus on current account. Receipts from tourism were 40.8 percent higher than the comparable 1964 period, and emigrants' remittances were up 22.9 percent. The following table shows the development of Italy's balance of payments in the first 8 months of 1965 and 1964:

Italian payments transactions	Jan.-Aug. 1965	Jan.-Aug. 1964
	<u>Million U.S. dollars</u>	
Merchandise trade balance	-276.0	-1,144.0
Services and transfers, net	<u>1,360.7</u>	<u>1,121.8</u>
Current account balance	1,084.7	-22.2
Private capital, net	-5.6	147.5
Public capital, net	<u>47.8</u>	<u>-23.8</u>
Overall balance	1,126.9	101.5

France again achieved notable increase in international assets, adding over \$1 billion to official reserves from 1963 to mid-1965. By the end of June 1965, international reserves totaled over \$6 billion; holdings of gold constituted \$4.4 billion. Early in 1965 France announced its intention to accelerate gold purchases from the United States for the purpose of maintaining a high ratio of gold to total reserves. However, in 1964, the goods and services account showed a deficit 26 percent higher than in 1963, and the government initiated policies aimed at curbing inflation. These policies produced a substantial improvement in the current account during the fourth quarter of 1964 and in the first quarter of 1965, although a trade deficit of \$113 million for 1964 resulted from a sharp rise in imports in the early part of the year. Because capital inflows increased in 1964 an overall balance of payments surplus of \$776 million was achieved. In the first quarter of 1965 the payments surplus totaled \$280.8 million, up \$78 million in comparison with the first quarter of 1964. Heretofore France has financed part of the balance of payments surplus with advance repayments on foreign debt, but no prepayments were made in 1964.

The Netherlands' official international reserves rose by \$237 million during the period January 1, 1964, to June 30, 1965, after a partial recovery in the fourth quarter of 1964 in the balance of trade. This country's usual but moderate surplus on merchandise trade was replaced by a deficit in 1964 and in the opening part of 1965 as a result of rising domestic demand and general wage increases. In the first 8 months of this year the trade account was in deficit by \$719 million compared to \$1.0 billion in the same period in 1964. A reversal in the capital account to a net inflow occurred in 1964, induced by restrictive monetary policies. The overall balance of payments in the first 6 months of 1965 was in deficit by \$136 million compared to a deficit of \$298 million for January-June 1964.

Belgium-Luxembourg's gold and foreign exchange reserves rose by \$325 million from 1963 to mid-1965 and the trade deficit in 1964 changed to surplus in the first 3 months of 1965. An overall balance of payments surplus in the

first quarter resulted from large private capital inflows. At the end of the second quarter the foreign trade balance was again in deficit with an acceleration of import growth over export growth.

Only Germany of all the Common Market countries failed to show much improvement in her external transactions. In 1964 the trade surplus of \$1.5 billion was almost totally offset by a deficit on capital account. Reserves rose \$230 million in 1964 and fell \$430 million in the first half of 1965, in contrast to a \$700 million increase in 1963. In the first quarter of 1965 the trade surplus of about \$300 million was less than the comparable 1964 period. Imports increased by 23.5 percent and exports by 11.6 percent. The current account as a whole was in deficit because of services and transfer payments, and capital transactions were also slightly in deficit. Thus, gold and foreign exchange holdings declined during the quarter. Germany's worsened condition may be attributed partially to anti-inflationary measures taken by other EEC countries, allowing Germany's share of export to other EEC markets to rise only slightly.

An unusual shift in the commodity composition of trade within the EEC market took place in 1964. Imports of raw materials and food by EEC countries rose rapidly in 1964, whereas imports of machinery and vehicles rose at a much slower pace. Germany has had a large share of the export market in the latter categories, while exports of agricultural commodities to other EEC members have been minor. In other parts of Europe, Germany's share of exports to the United Kingdom did not increase and declined with other EFTA countries. Part of the reduction in trade surplus may also be attributed to a rise in domestic demand in association with a period of expansion.

United Kingdom, Japan and Canada.--The rapid domestic economic expansion of the United Kingdom in 1964 resulted in a large trade deficit accompanied by a larger than usual net outflow of long-term capital. The country lost reserves heavily during 1964 (\$831 million). In October 1964, the monetary authorities resorted to trade and fiscal measures to correct the trade imbalance. The new Labor Government imposed a 15 percent surcharge on most nonagricultural imports and additional internal taxes were put into effect by the spring of 1965. The Bank of England in November raised the discount rate from 5 to 7 percent in an attempt to stem the flow of capital abroad and tightened credit availabilities to commercial banks.

The U.K. suffered a deterioration on current account, incurring a trade deficit of more than \$1.5 billion in 1964. Closer integration and tariff reduction within the Common Market was responsible for some loss of exports to that area. As in Germany, the U.K.'s exports of machinery and vehicles suffered a decline because of the shifting composition of commodity imports of EEC countries. Exports to other EFTA countries increased but these benefits were overshadowed by the loss of earnings in the EEC and in other markets outside Europe, where improvements in U.S. and Japanese export prices affected the U.K. The adverse events of the year probably created the most pressure on sterling since 1947.

In early 1965, the Government introduced new measures designed to control increases in incomes and prices in relation to productivity growth. These measures included a more restrictive monetary policy and increases in taxation. Exports increased slightly in the first quarter, mainly to sterling area countries and to Western Europe, but the country incurred a deficit on current account of \$75 million for the quarter.

The U.K. balance of payments was in surplus in the second quarter of 1965 for the first time in two years. The surplus amounted to nearly \$80 million, compared to a deficit of \$476 million in the second quarter of 1964. This reduced the total U.K. balance of payments deficit for the first half of the year to \$285 million, compared to a deficit of nearly \$875 million for the corresponding period of 1964. Reserves increased by \$476 million by mid-1965. The improvement in the second quarter was largely attributable to a sharp rise in net invisible earnings--such as tourism and transportation--which resulted from unusually high net receipts by the oil companies. The long-term capital account was approximately in balance, contrasted with a net outflow in the past year.

Japan's currency became fully convertible for current transactions on April 1, 1964. In order to counter any destabilizing speculative capital movements, Japanese authorities negotiated a standby arrangement with the IMF and a "swap" arrangement with the U.S. Federal Reserve System 1/.

After a deterioration in the balance of payments in 1963 due to rapid economic expansion and rising imports, Japan in 1964 experienced a spectacular growth in exports and steady domestic production so that the year-end trade balance was in surplus by \$350 million. The overall deficit on current account was largely covered by a net inflow of short-term capital, and official reserves declined only slightly.

In the first six months of 1965 exports rose by 36 percent compared with the corresponding period of 1964, to \$3.9 billion. Imports also rose, by 2.2 percent to about \$4.1 billion. The trade deficit was thus \$222 million, compared with a deficit of \$1 billion in the corresponding period of 1964. Japanese authorities estimate exports to exceed imports by some \$1.5 billion during the current fiscal year (April 1965 to March 1966), more than enough to accommodate net outflows of invisibles.

In 1964, Canada's deficit on current transactions narrowed to the smallest in the past 10 years with an increase of \$700 million in merchandise trade.

1/ Swap arrangements are bilateral short-term credit arrangements between central banks. These have achieved some importance among the industrialized nations and were used to support sterling in March 1961 and in early 1963, and to assist Canada in mid-1962. The U.S. Federal Reserve System has reciprocal swap arrangements with 10 foreign central banks. Credit in excess of the equivalent of \$1 billion is available to the U.S. through this mechanism. Some smaller nations have concluded such arrangements on a more limited basis.

Wheat shipments to the USSR and elsewhere were primarily responsible, along with increases in a wide range of manufactured goods. Canada's current account deficit was reduced on account of foreign transactions, although the deficit with the U.S. widened by 40 percent. With the announcement that new Canadian issues would be exempt from the U.S. interest equalization tax, long-term capital inflows increased sharply and official holdings followed suit. Following the improvement in foreign transactions, the Canadian authorities recently announced revisions in banking legislation and new legislation to increase Canadian ownership in, and lend assistance to, major industrial projects.

In the first quarter of 1965 the Canadian boom continued, adding a net increase to foreign exchange holdings. Nevertheless, a sharp deterioration in Canada's foreign trade in the second quarter led to a deficit of \$55 million in the country's trade balance for the first half of 1965, against a surplus of \$233 million in the corresponding 1964 period. In view of the \$450 million wheat agreement concluded with the U.S.S.R., however, the balance of trade is estimated to be in surplus at the end of the year.

Other Developed Nations.--All other developed nations combined showed a net increase in gold and foreign exchange holdings in the reporting period, although significant foreign exchange losses occurred in several countries. In South Africa, inflationary pressures caused a large deficit in current account transactions in the latter part of 1964 and early 1965. Greece's economy is tied substantially to external trade; hence, the increase in imports which has accompanied economic growth in the country has overtaken export gains and reserves have dropped. Yugoslavia's trade deficit of 1964 was reduced in the first quarter of 1965, but the country continued to experience balance of payments difficulties. Australia's exchange losses are probably due to a sharp downturn on capital account in the first part of 1965.

Israel and Spain continued to prosper. In Israel, the balance of payments deficit on current account was higher in 1964 than in the previous year on account of a larger trade deficit. In contrast, the deficit on services account declined. Foreign indebtedness increased, and the accumulation of reserves was smaller than in 1963, although indications are that the immediate future will bring improvement. A recently concluded trade and tariffs arrangement with the EEC is favorable for Israel's future prospects.

Spain's reserves from 1963 to mid-1965 rose by more than 25 percent as receipts from tourism and long-term capital inflows increased. In the first 6 months of 1965, Spanish imports increased 30 percent over the corresponding 1964 period, owing mainly to imports of machinery. Exports in the same period declined, due almost entirely to a poor olive oil crop, resulting in a trade deficit. Reserves in the early months of 1965 fell by \$105 million, but by the end of June, foreign exchange holdings totaled \$1.5 billion largely as a result of increases in tourism. Spain has been increasing gold holdings at the rate of about \$30 million per month.

RESERVE MOVEMENTS AND PAYMENTS POSITIONS OF LESS DEVELOPED COUNTRIES

Developing nations failed on the whole to increase their foreign exchange holdings in 1964 and experienced some deterioration in their overall balance of payments positions, while trade continued to expand. In 1965, these countries recovered somewhat, adding nearly \$550 million in reserves in the first half. Multilateral and bilateral aid continued however to supply the largest inflow of foreign financial resources, since the role of private capital as a dynamic factor in economic development has not been fully recognized. These countries must in the present circumstances continue to rely on world market conditions for their primary product exports.

Latin America.--Developments in the external position of Latin American countries reflected their reliance on world market conditions for primary product exports. The area as a whole registered a net increase in reserve holdings of \$132 million in 1964 following a half billion dollar gain in 1963. In the first half of 1965 reserves improved by the same amount as in the entire year 1964. Nevertheless, Latin America's reserve holdings continued their downward trend from an annual average of \$3.4 billion in the last half of the 1950s to \$2.8 billion in the period 1960-1964.

The Central American Common Market.--Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua--had a healthy growth in total reserves of \$30 million in 1964 and \$50 million in the first 6 months of 1965, about 50 percent higher than the 1963 level. Continued favorable trends in production levels and world market prices for the area's chief export products (coffee, cotton and bananas) were a growth factor, along with the benefits of economic integration. These countries essentially have eliminated intra-regional trade barriers and have established a uniform external tariff schedule. Intra-regional trade increased by 50 percent in 1963 and the area as a whole is currently producing more and buying more from abroad than ever before. Imports from the U.S. are increasing in absolute terms, but decreasing in terms of a share of the market because of European and Japanese competition.

Panama, an associate member of the Common Market, lost \$20 million in reserves (a 50 percent drop) during 1964 largely as a consequence of political difficulties and capital flight. In the first half of 1965, reserves increased by \$13 million, but this is probably seasonal.

Of all the LAFTA ^{2/}countries, Argentina suffered the largest deterioration of reserves (\$153 million) during the reporting period. Argentina's poor performance is associated with foreign debt repayments and with the monetary authorities' continuing need to support a sagging exchange rate. Argentina's favorable trade balance did not compensate for adverse developments on capital account in 1964. The peso was devalued in November 1964 and again in 1965 in an effort to further promote exports, particularly exports of agricultural products.

^{2/} The Latin American Free Trade Area (LAFTA) comprises Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

Mexico's net reserve position at the end of the reporting period was in deficit by \$65 million over the end of 1964, while real growth in GNP reached 10 percent, the highest annual rate in a decade. Contributing factors to the growth in GNP were an unusually high level of crop production and an increase in investment in both the public and private sectors. In addition, exports have expanded substantially and Mexico has achieved some measure of success at diversification. Imports expanded at an even more rapid rate as an aid to economic development. Thus, the lack of a significant rise in foreign exchange reserves, rather than serving as an unfavorable indicator, occurred in conjunction with a period of prosperity and economic expansion.

Brazil's foreign holdings increased for the first time since 1960. The level of reserves of \$520 million at the end of June 1965 had a gold component of approximately \$60 million, the major portion of which is pledged against contracted debt. The reserve gain is in part due to the recent relief in debt repayments provided by major creditors, although foreign indebtedness is still heavy.

In the first half of 1965 Brazil's exports (excluding coffee) expanded by 40 percent to \$393 million, compared with \$280 million in the corresponding 1964 period. Including coffee exports the total was \$635 million, against \$652 million in the January-June period of 1964. Imports totaled \$515 million at the end of June 1965, compared with \$603 million at mid-1964. Brazil continues to suffer from inflation accompanied by price distortions, although the rate of inflation has dropped to about 2 percent a month, or about half the rate in 1961.

Asia and the Middle East.--In the less developed countries of the Middle East, total reserves remained approximately constant in the year 1964, but increased \$400 million by June 30, 1965. The country showing the greatest improvement was Iran. Reserves decreased in 1964 due to greater imports of investment goods and consumer durables associated with economic development. But, reserves increased by \$102 million in the first six months of 1965. Iran appears to be coming out of a period of domestic economic stagnation which has lasted for some years.

Turkey's balance of payments situation remains disturbing. Reserves declined by \$32 million in the reporting period, 1963 to mid-1965, and some of the remaining reserves are subject to call for payments on short-term borrowings of the Central Bank. A growing population threatens further to reduce exportable surpluses and the demand for Turkey's staple exports appears to be inelastic. Short-term favorable prospects include receipts from Turkish workers who emigrate to Europe and increased earnings from tourism.

In Asia, net reserves of developing countries have declined by some 25 percent since 1963, when holdings in that part of the world were at their peak. India, Pakistan, Malaysia, Korea, Burma, Ceylon and Vietnam each incurred moderate reserve losses. India is experiencing food shortages and inflation and in February 1965 announced a series of measures aimed at averting a foreign exchange crisis and providing relief to the balance of payments. Reserves have declined steadily since early 1964, attributable in part to a declining growth

in exports and an increase in food and defense imports. A consortium of countries have pledged over \$1 billion in aid to India during the fifth year (1965-66) of the Indian Development Plan. The consortium had already pledged nearly \$4.5 billion in the first 4 years.

The external financial situation of the Republic of China continued to improve steadily, with reserves rising by \$70 million in 1964 and by \$22 million in the first half of 1965. The trade balance for 1964 was estimated at a \$39 million surplus compared with a \$24 million deficit in 1963. Processed and unprocessed farm products constituted more than half of total exports--a larger share than in 1963.

Africa--Foreign exchange holdings among the developing nations of Africa showed a net decline from 1963 to 1964 of about \$50 million but a net increase of over \$100 million in the first six months of 1965. Libya, Ethiopia, Ghana and Morocco all increased reserves substantially, while Nigeria and the Sudan and Tunisia showed significant declines.

Tunisia's balance of payments disequilibrium caused the authorities to devalue the dinar at the end of September 1964 and adopt several fiscal and monetary measures. The economy improved somewhat by the end of the year, but the overall balance of payments deficit was \$5 million. Over the last few years export receipts have remained stagnant while imports of capital goods needed for investment have expanded rapidly.

The Sudan has been experiencing a difficult balance of payments problem since 1963. This is primarily because of the growth in imports associated with an expanding development program and accompanying inflation. A poor cotton crop in 1963-64 aggravated the problem by causing a decline in export earnings.

Libya's increase in earnings may be attributed to oil exports. Libya is the eighth largest oil producing country in the world. Government receipts from the oil companies established in Libya changed Libya's traditional balance of trade deficit into a large surplus in 1964 of approximately \$416 million, compared with \$140 million in 1963. Reserves in January-June 1965 rose by nearly \$100 million.

THE UNITED STATES BALANCE OF PAYMENTS 3/

The deficit in the U.S. balance of payments as measured by regular transactions amounted to \$3.1 billion in 1964 compared to deficits of \$3.3 billion in 1963 and \$3.6 billion in 1962 (table 3). For the most recent 5-year period the average annual payments balance was in deficit by \$3.4 billion. Merchandise exports rose 15 percent during 1964 to a record \$25.2 billion. Total export receipts exceeded merchandise imports by \$6.6 billion compared with net merchandise earnings of \$5.1 billion in 1963. Total exports receipts from agricultural exports exceeded agricultural imports by \$2.2 billion in 1963.

3/ Balance of payments statistical data in this section were prepared by McGehee H. Spears, Assistant Branch Chief, International Monetary Branch.

The payments deficit of \$3.1 billion in 1964 was financed by advance repayments on prior U.S. Government credits totaling \$122 million; a \$222 million increase in U.S. Government liabilities associated with military exports; a net increase of \$339 million in U.S. Government sales of nonmarketable, medium-term convertible and nonconvertible securities; a \$2.3 billion rise in foreign holdings of liquid dollar assets; and a decrease in U.S. monetary reserve assets by \$171 million. Gold, the major component of U.S. monetary reserve assets, decreased by \$125 million. In the first half of 1965, the gold stock declined by \$1.4 billion. Large gold purchases were made by Austria (\$63 million), France (\$630 million), Spain (\$150 million) and Switzerland (\$50 million).

In the first 3 quarters of 1965, the balance of payments as measured by regular transactions before seasonal adjustments was in deficit by \$839 million compared to a deficit of \$1.4 billion in the comparable period in 1964. This sharp improvement in the balance of payments position compared to prior years reflects a determined effort of the nation to comply with the President's balance of payments program announced on February 10. The program was designed to enlist the cooperation of U.S. financial and business enterprises in improving the balance of payments. The financial community was asked to limit the outflow of capital voluntarily under guidelines established by the Federal Reserve System and the Treasury Department. The net outflow of U.S. private capital during the first half of 1965 dropped to less than \$2 billion compared to \$2.8 billion in the same period of 1964.

Agriculture in the U.S. Balance of Payments.--Agricultural exports reached a new high of \$6.3 billion in 1964 and accounted for most of the sharp improvement in the balance of trade surplus of \$6.7 billion (table 4). The agricultural export trade surplus is the largest in the past half century, and for the first time almost all of the surplus was achieved through commercial exports. Government financed food programs were at approximately the same level as in 1963.

In the first half of 1965, U.S. exports declined by comparison with the level of performance in the last half of 1964. Agricultural exports in the first quarter totaled \$1.2 billion, compared with \$1.6 billion and \$1.2 billion for the first quarters of 1964 and 1963, respectively. The unusually high agricultural exports in the first quarter of 1964 are attributable in large part to special grain shipments to the Soviet Union. In the first quarter of 1965, a dock strike reduced the net export surplus, but the agricultural trade position improved during the second quarter. Wheat and cotton exports declined during the first half of 1965. Exports of feed grains, soybeans, and fats and oils rose moderately, and further increases in these commodity exports in the second half of the year are expected to push total agricultural exports to the 1964 level.

Table 4.--U.S. merchandise trade, agricultural and nonagricultural, calendar years 1962-64 ^{1/}

Transaction	Exports			Imports			Balance of trade		
	1962	1963	1964	1962	1963	1964	1962	1963	1964
	Million U.S. dollars								
Merchandise trade total	20,604	22,069	25,288	16,173	16,992	18,619	4,431	5,077	6,669
Agricultural total	5,034	5,584	6,348	3,868	4,011	4,082	1,166	1,573	2,266
Commercial agriculture	2/3,489	2/3,942	2/4,632	3/3,868	3/4,011	3/4,082	-379	-69	550
Public Law 480	1,510	1,631	1,692	---	---	---	---	---	---
Mutual Security	35	11	23	---	---	---	---	---	---
Nonagricultural trade total	15,570	16,485	18,940	12,305	12,981	14,537	3,265	3,504	4,403

^{1/} Excluding military grants.

^{2/} Commercial agricultural exports include in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) extension of credit for relatively short periods, (2) sales of government-owned commodities at less than domestic market prices, and (3) export payments in cash or in kind.

^{3/} Commercial agricultural imports constitute total agricultural imports.

Sources: Survey of Current Business, June and September 1965; Foreign Agricultural Trade of the United States, July 1965.

Computing the U.S. Balance of Payments.--In the future the U.S. balance of payments surplus or deficit will be measured on two bases: the present method of measuring the balance on regular transactions, the so-called "liquidity" concept; and the "official settlements" concept which measures changes in official transactions. The latter was recommended in a report by the Review Committee for Balance of Payments Statistics ^{4/}. Both of the definitions measure changes in U.S. monetary reserve assets and liquid liabilities to foreign monetary authorities. The chief difference between the two is that the official settlements concept distinguishes between foreign official and private dollar acquisitions--only foreign official dollar holdings can be used as claims against U.S. gold. The liquidity concept also counts changes in foreign private dollar holdings. Nevertheless, a continuation of the liquidity measurement of the balance of payments also is considered essential to an understanding of the U.S. international financial position, particularly because of large shifts which occur between foreign official and private dollar holdings.

Under the new definition--the official settlements concept--the payments balance was in deficit by \$1.5 billion in 1964, or about one-half the deficit as computed on the basis of regular transactions. However, by either measure, the payments deficit was reduced in both 1963 and 1964.

^{4/} "The Balance of Payments Statistics of the United States, A Review and Appraisal," Report of the Review Committee for Balance of Payments Statistics to the Bureau of the Budget, April 1965.

Any balance of payments statement following the principles of double-entry bookkeeping must add to zero when all receipts are netted against payments. The concept of a payments surplus or deficit requires the selection and summation of specific international transactions. In balance of payments accounting those selected international transactions--for example, the change in U.S. monetary reserve assets including gold--are for the most part subject to the forces and influence of other transactions such as merchandise trade or overseas investments. Those selected international transactions are placed "below the line" and are regarded as financing the balance of all other international transactions said to be "above the line." To illustrate, the following payments balances reckoned on all "above the line" transactions are financed by the indicated items shown depending upon whether measured on the basis of regular transactions or official settlements. For any entry denoted by the symbol (--), data for that entry are by definition excluded in reckoning the financing items, therefore it must be included either wholly or partly in transactions "above the line." Numerical designation of items correspond to those indicated in table 3 above for 1964.

Transaction		: Regular : basis	: Official : settlements : basis
		: <u>Million U.S. dollars</u>	
Balance of payments surplus or deficit (-) as measured by the balance of all transactions "above the line"		: -3,106	-1,504
Transactions financing the payments balance "below the line"		: 3,106	1,504
III. A-1.	Advance repayments (+) on prior U.S. Government loans	: 122	122
B-1.	U.S. Government liabilities associated with military exports, increase (+)	: 222	--
B-2a	U.S. Government sales of nonconvertible securities, increase (+)	: -36	--
B-2a-1	To foreign official monetary institutions	: --	138
C.	U.S. Government sales of convertible securities to official monetary institutions, increase (+)	: 375	375
D.	Increase (+) in U.S. short-term liabilities	: 2,252	--
D-1.	To foreign official monetary institutions	: --	698
E.	Increase (-) in U.S. monetary reserve assets	: 171	171